



# MARKET-LINKED CDs

**MLCDs may help investors pursue growth opportunities,  
generate income, and/or protect principal.**



# What is a Market-Linked CD?

A Market-Linked CD, or MLCD, is a FDIC-insured certificate of deposit (CD) which allows investors to participate in potential market gains while protecting their principal investment. Upside returns are linked to the performance of an underlying reference asset, commonly referred to as an “underlier.” Common underliers include indices, individual equities, commodities, interest rates, currencies, and exchange traded funds.

It is important to highlight Market-Linked CDs (MLCDs) are intended to be held to maturity and only guarantee full return of principal at maturity. If an investor sells or redeems their investment prior to maturity, they may receive a return less than their original investment.



## Key Features

### Principal Protection and FDIC-Insured



When purchased at par and held to maturity, MLCDs generally return the full principal investment, even if the performance of the underlier is negative, subject to the credit worthiness of the issuing bank. In the event the issuing bank fails, MLCDs are FDIC-insured up to applicable limits, generally \$250,000 per depositor per FDIC-insured institution. This FDIC-insurance applies when MLCDs are held to maturity and not when CDs are sold or redeemed prior to maturity. For more information regarding FDIC coverage and limits, please visit [www.fdic.gov](http://www.fdic.gov).

### Upside Market Participation



Returns are tied to the performance of the underlier. At maturity, if the performance of the underlier is positive, the investor may receive a positive return based on the terms. Participation can be “point-to-point” (1-to-1 upside), “enhanced” (greater than 1-to-1 upside), or partial (less than 1-to-1 upside). Additionally, the return can be “capped,” which limits the amount of return the investor can receive at maturity.

### General Terms



While maturities will vary, MLCDs generally have maturities ranging from 1 to 7 years. MLCDs are typically issued in \$1,000 denominations, with investment minimums which commonly start at \$10,000. Additionally, dividends paid by the underlier are not passed through to the investor.

*MLCDs are considered complex investments and may not be suitable for all investors.*

## Estate Feature



Many MLCDs offer an estate feature. In the event of death, the estate may be entitled to receive 100% of the principal amount of the CD before maturity. The feature is subject to conditions and limitations established by the individual issuer; the disclosure statement and applicable offering documents should be read carefully to understand these terms.

## Tax Treatment



There are important tax considerations related to Market-Linked CDs, both during the term of the product and at maturity. For tax purposes, MLCD returns are generally considered interest income and are typically taxed at the holder's ordinary income tax rate.

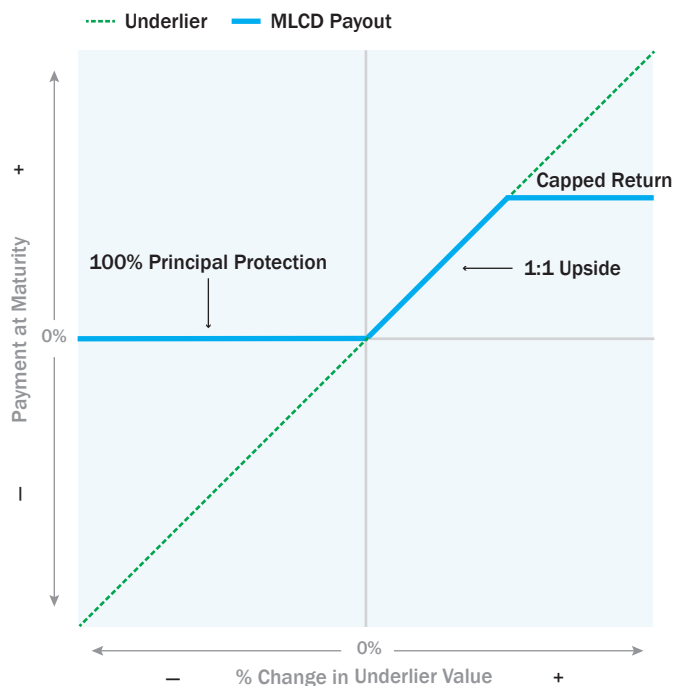
*Neither AAM, nor its affiliates and employees, provide tax advice and investors should consult their tax advisor.*

# Hypothetical Payout Profile

As previously discussed, a traditional Market-Linked CD (MLCD) offers investors upside participation in the performance of an underlier with full principal protection at maturity, subject to the creditworthiness of the issuer.

The hypothetical example below illustrates the payout profile of a MLCD purchased at par and held to maturity.

**TERM:** 5 Years    **PARTICIPATION:** 1:1 Upside, Capped (50% Max Return)    **DOWNSIDE EXPOSURE:** 100% Principal Protection at Maturity



Hypothetical Payout Scenario Table

Underlier Performance	MLCD Return at Maturity
+70%	50%
+60%	50%
+50%	50%
+40%	40%
+30%	30%
+20%	20%
+10%	10%
0%	0%
-10%	0%
-20%	0%
-30%	0%
-40%	0%
-50%	0%

*This hypothetical example is for illustrative purposes only and is intended only to illustrate the potential impact various return scenarios may have on an investor's return at maturity, assuming all amounts are paid when due. This information should not be taken as an indication or prediction of investment results. Specific terms and conditions will vary based on the individual terms of the MLCD resulting in different payout structures and risks.*

# The Basic Components of a MLCD

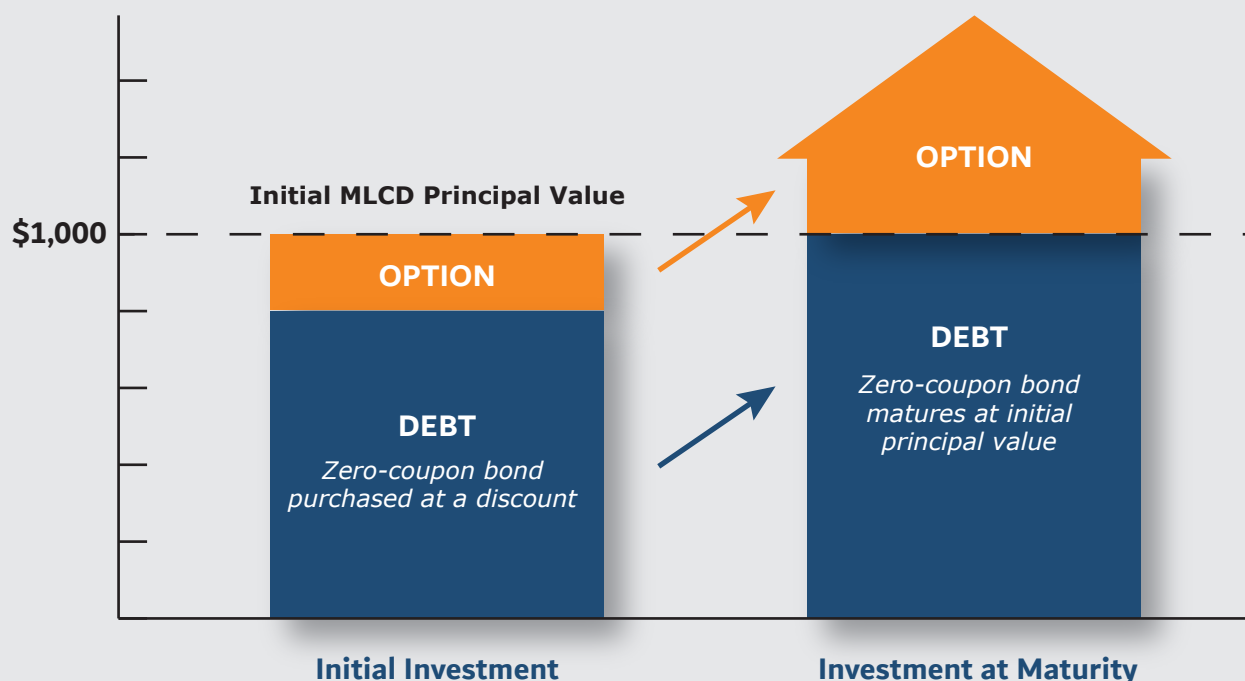
As illustrated in the figure below, the mechanics supporting a basic Market-Linked CD structure can be described as similar to combining a debt component with an option component.

## Debt Component

The debt component (generally a zero-coupon bond) provides the **principal protection** investment characteristics of the MLCD at maturity. A zero-coupon bond is issued at a discount from its face value and matures at the initial principal value of the MLCD.

## Option Component

The option component provides the **potential for additional growth** at maturity, if any. The option component is the equivalent of using the remaining MLCD principal to invest in an option and is linked to the performance of the underlying reference asset.



*For illustrative purposes only. Information should not be taken as an indication or predication of investment results.*

For example, if an investor makes an initial investment of \$1,000 in a single Market-Linked CD, the CD might offer investment characteristics of \$800 invested in a zero-coupon bond structured to pay \$1,000 at maturity (the protection component). The investment characteristics of the remaining \$200 of initial investment would be the equivalent of investing in an option-like component tied to the underlier (the growth component). In this example, the option/growth component of the CD might offer the potential for a payment at maturity of the CD linked to the return of a market index or some other asset. The debt/protection component would provide the return of principal at maturity.

It is important to emphasize that the bank that issues a MLCD does not actually issue a zero-coupon bond and an option to investors, but rather, offers these investment characteristics in a single instrument through the MLCD.

# How MLCDs May Fit in Portfolios

While MLCDs may not be suitable for all investors, they can be an attractive investment choice for those looking to preserve capital and limit downside risk, without sacrificing the ability to participate in upside market movements. Young families, conservative investors, individuals saving for college, baby boomers, and retirees are examples of those who may choose to address these objectives using MLCDs.

## Exposure & Diversification

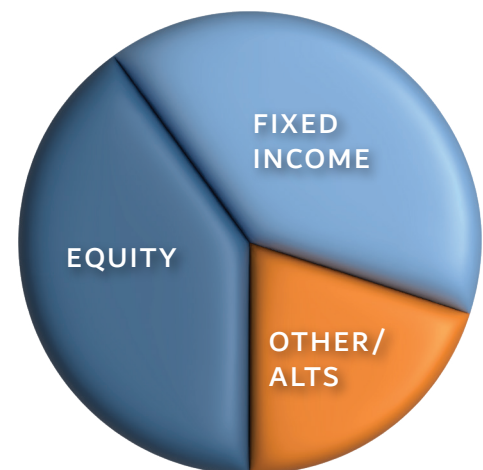
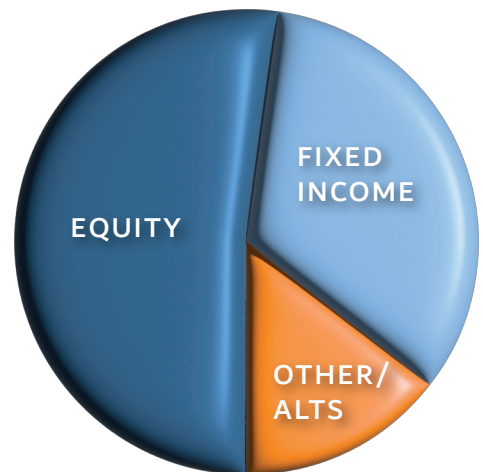
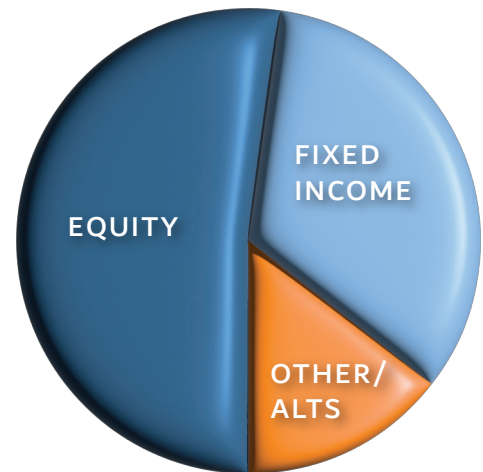
Investors can gain exposure to a specific asset class or market sector that might otherwise be difficult to access directly, such as commodities or currencies.

## Mitigate Risk

MLCDs can help investors manage portfolio risk by providing full principal protection, at maturity with the potential for growth based on the performance of the underlier.

## Complement Investment Objective

MLCDs can help investors capitalize on a market view of a specific underlier and can also complement an investment objective, such as generating cash flow or growth.



## Statement Value Considerations

The statement value of a MLCD will differ from traditional investments and will most likely be lower than the original principal amount invested on day one. Statement values are an estimate of the current market value of the MLCD and are affected by a variety of factors, including performance of the underlying asset, interest rate movements, market values, and time remaining until maturity.

**Statement values do not reflect principal or payments which will be made at maturity.**

Generally, the closer to maturity a MLCD is, the more the underlying asset performance and amounts due at maturity will be reflected in the statement value. The more time left to maturity, the more sensitive statement values may be to market fluctuations and other factors.



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## Additional Selected Considerations

**Call risk.** Some Market-Linked CDs may be redeemed by the issuer prior to the scheduled maturity which can adversely affect an investor's return; an investor might be unable to reinvest the proceeds at a similar return if this occurs.

**Credit risk.** While MLCDs are FDIC-insured up to applicable limits, the issuer's creditworthiness is an important consideration, particularly for MLCD investments above the FDIC insurance limits.

**Inflation risk.** Even with 100% principal protection, a MLCD's maturity value may be less than the inflation-adjusted original investment.

**Liquidity.** Market-Linked CDs are generally not traded on any exchange, or may be only thinly traded, and can be difficult to price. Due to the lack of liquidity, the market price of MLCDs may be significantly discounted if redeemed prior to maturity. MLCDs should be considered buy-and-hold investments. The lack of a liquid secondary market makes MLCDs inappropriate for investors who may not be able to hold them to maturity.

**Market risk.** Volatility and other market forces can affect the value of the asset underlying the growth component, both during the term of the Market-Linked CD and at maturity, and this can affect return. Historical performance of the underlying asset class is no guarantee of future performance.

**Participation risk.** Some MLCDs limit participation in any appreciation on the underlying asset, capping potential return. In addition, even if the underlying asset is linked to equities, investors will not receive any dividend income.

**Payout considerations.** Market-Linked CDs may pay an interest or coupon rate substantially above or below the prevailing market rate. MLCDs may also cap or limit upside participation in the performance of the underlying asset, particularly if the security pays an above-market rate of interest. Additionally, the underlier may under-perform which could negatively impact the payout. Other factors which may affect the investment value of a MLCD include interest rates, volatility of the underlying asset, liquidity, and time remaining until maturity.



# Risk Considerations

*The information contained herein is not intended to be a complete description of the statement valuations, terms, risks, and benefits associated with any specific Market-Linked CD (MLCD) offering.*

***Market-Linked CDs (MLCDs) may not be suitable for all investors and are made available through an offering document, or disclosure statement. These documents contain a detailed explanation of the risks, tax treatment, and other relevant information about the investment. Before investing, you should read the disclosure statement and other supporting documents carefully. Additionally, investors should consult their accounting, legal, or tax advisors before investing. Market-Linked CDs are sold through financial professionals.***

*It is important to highlight Market-Linked CDs only guarantee principal back at maturity and thus if an investor sells or redeems his/her investment prior to maturity, the investor may receive an amount less than his/her original investment. There may be substantial penalties for an early withdrawal. Typically, the issuer of the MLCD maintains a secondary market; however, they are not obligated to do so.*

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